



## BOARD ADOPTED POLICIES

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**POLICY NUMBER:** 2.05.700

**EFFECTIVE DATE:** 7/20/06

**TITLE:** Directed Brokerage

**SUPERSEDES:** Policy 2.05.400, 9/16/99

**BOARD ADOPTION:** 7/20/06

**APPROVED:** *Joseph A. Dear*

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### INTRODUCTION

This policy provides guidelines for the use of directed brokerage by the Washington State Investment Board (WSIB).

#### Definition:

Directed Brokerage is an arrangement whereby the WSIB requests our investment managers to execute a portion of their trades (generally 20 percent) through one of our specified recapture brokers subject to the managers' duty to obtain best execution. The WSIB utilizes a single entity to manage the broker correspondent network and to provide a centralized record-keeping system. A negotiated percentage of the commissions incurred are rebated to be used to pay for legitimate investment related expenses or to be rebated to the WSIB managed funds.

#### Legal Authority:

A service or product that would otherwise be an obligation of the WSIB in managing investments is eligible for payment with directed brokerage. Additionally, proceeds from a directed brokerage program may be deposited directly back into the funds managed by the WSIB. In addition to federal SEC regulations, the WSIB is governed by state laws relating to expenditure authority, procurement, and accounting/reporting requirements. Such state laws may impose other restrictions on the types of services for which directed brokerage may be used. Under Washington law, investment related expenses for the WSIB are not required to be appropriated by the Legislature as part of the WSIB's operating expenses budget.

### POLICY

Directed brokerage rebates represent an asset of the funds under the jurisdiction of the WSIB to be managed just as prudently as any other asset of the funds. It is the policy of the WSIB that we participate in a directed brokerage program designed to defray necessary investment related expenses.

## **PROCEDURES**

The Executive Director will establish appropriate internal controls and operating procedures for the approval, use, acquisition, payment, accounting, and reporting of directed brokerage.

All WSIB investment managers are required to achieve the “best net execution” on all investment transactions.

### Reporting:

1. WSIB staff will prepare quarterly reports for executive staff reflecting service provided, expected commission, total commitment paid to date, and balance outstanding.
2. Annual detail reports will be produced by staff and submitted to the Board for their information.

## **POLICY REVIEW**

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.